Opening Statement of the Honorable Tim Murphy Subcommittee on Oversight and Investigations Hearing on "Examining the Costly Failures of Obamacare's CO-OP Insurance Loans" November 5, 2015

(As Prepared for Delivery)

The Subcommittee convenes this hearing today to examine yet another Obamacare failure: the CO-OP insurance loan program. The Affordable Care Act established "Consumer-Oriented and Operated Plans" or CO-OPs, an experimental program that awarded government-backed loans to non-profit health insurance issuers.

Of the 23 CO-OPs that sold health insurance plans, 12 have failed to date. These failed CO-OPs represent **\$1.23 billion** in federal taxpayer dollars. Since CO-OPs must pay any outstanding debts or obligations before repaying the loan funds to CMS, it is unlikely that the federal government will recoup these funds.

Originally intended to increase choice and create competition among insurers, these CO-OPs were structurally flawed and financially risky from the start.

As early as 2011, HHS predicted that 36 percent of the loans would go unpaid. In 2012, the Office of Management and Budget projected taxpayers would lose 43 percent of loans offered through the program. The following year, a HHS OIG report expressed concern about CO-OPs' financial sustainability and ability to repay loans.

Even staunch supporters of the Affordable Care Act predicted the CO-OP program would fail. Back in 2009, Senator Rockefeller wrote: "There has been no significant research into consumer co-ops as a model for the broad expansion of health insurance. What we do know, however, is that this model was tried in the early part of the 20th century and largely failed." The Senator also called CO-OPs a "dying business model for health insurance."

Despite these widespread concerns, CMS awarded **\$2.4 billion** in federal loans to 23 CO-OPs operating in 23 states. This total does not include the CO-OP that failed before it enrolled a single person. CMS awarded a CO-OP in Vermont over \$30 million taxpayer dollars. However, in 2013, Vermont's state insurance commissioner denied the CO-OP a license to sell health insurance, calling its application "fatally flawed." The federal funds that had already been spent to establish Vermont's CO-OP—about \$4.5 million taxpayer dollars—were never recovered.

The next CO-OP to fail was CoOportunity, a CO-OP operating in Iowa and Nebraska. At first, CoOportunity seemed to be a success. It enrolled over 120,000 individuals, which amounted to one fifth of CO-OP enrollees nationally. However, CoOportunity's premiums were too low and it was concerned about its ability to pay claims to providers. CoOportunity received \$145 million in federal loans, but upon liquidation, it had operating losses over \$163 million. We are grateful that Senator Ben Sasse is here today to testify about the failure of the CO-OP program, and how it has negatively affected Nebraskans.

Near the end of 2014, CMS awarded \$350 million in last-minute loans to bolster six CO-OPs in dire financial situations. Of those six CO-OPs, three have since closed. It is doubtful that CMS will recover any of these additional federal funds.

Several factors have caused the CO-OPs to fail. In some cases, low enrollment was to blame. In other instances, CO-OPs set premiums too low. A July 2015 HHS OIG audit, issued before the rush of CO-OP closures, found that 21 of the 23 CO-OPs incurred net losses in 2014, and anticipated that "low enrollments and net losses might limit the ability of some CO-OPs to repay loans."

Additionally, some CO-OPs have cited low risk corridor payments from CMS as the reason for their demise. Because less money was paid into the risk corridor program than was expected, insurers ended up with 12.6% of the payment they were anticipating. Given the CO-OPs' dismal financial situation, CO-OPs inappropriately hoped risk corridor payments would bail them out. However, the risk corridor program was always intended to be budget neutral—only what was paid into the program would be paid out.

In fact, in early 2014, a spokesman from CMS confirmed, "The [risk corridor] policy, modeled on the risk corridor provision in Part D that was supported on a bipartisan basis, was estimated to be budget neutral, and we intend to implement it as designed."

We are here today to understand what went wrong. We will hear from individuals who were on the ground, implementing and regulating CO-OPs from day one. We will hear from state regulators faced with difficult decisions about how to best protect consumers in their states. We will hear from individuals who have established CO-OPs, and face challenges to balance CMS requirements and keep CO-OPs afloat. We will hear from the auditors of CO-OPs, who will speak to the financial challenges CO-OPs face to pay back their federal loans.

And lastly, we will hear from CMS about not only what went wrong, but how we can fix it—with the goal of recovering taxpayer dollars awarded to the CO-OPs.

I thank all the witnesses for testifying today.

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